

**Washington State Auditor's Office**  
**Audit Report**

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**Office of the Superintendent  
of Public Instruction**

Audit Period  
July 1, 1998 through June 30, 1999

Report No. 6161

Issue Date  
**June 28, 2000**



Washington \_\_\_\_\_  
***State Auditor***  
\_\_\_\_\_  
Brian Sonntag

# Audit Summary

## Office of the Superintendent of Public Instruction July 1, 1998 through June 30, 1999

### ***ABOUT THE AUDIT***

This report contains the results of our annual independent audit of the Office of the Superintendent of Public Instruction for the period July 1, 1998, through June 30, 1999. The Agency is responsible for supervising all matters pertaining to public schools in the state of Washington.

We performed audit procedures to determine whether the Agency complied with state laws and regulations, its own policies and procedures, and federal grant requirements. Our work focused on specific areas that have potential for abuse or misuse of public resources. Areas of special interest included apportionment, food distribution, purchasing, and property and equipment.

### ***RESULTS***

In most areas the Agency complied with state laws and regulations, federal regulations, and its own policies and procedures. However, we identified two conditions significant enough to report as findings.

- The Agency did not have adequate internal controls and procedures in place within the Accounting Department and in the specific areas of accounts receivable, journal vouchers and year-end adjustment vouchers.
- The Agency did not comply with state laws and regulations requiring control over fixed assets.

We found the Agency made progress in resolving issues identified in our past audit. Three findings regarding federal programs reported in the prior audit were resolved. The Agency also continues to improve controls over personal service contracts.

# Table of Contents

## **Office of the Superintendent of Public Instruction July 1, 1998 through June 30, 1999**

Description of the Agency .....	1
Audit Areas Examined .....	2
Audit Overview .....	4
Schedule of Audit Findings.....	5
Status of Prior Audit Findings.....	15

# Description of the Agency

## Office of the Superintendent of Public Instruction July 1, 1998 through June 30, 1999

### **ABOUT THE AGENCY**

The Office of the Superintendent of Public Instruction was created under Article 3 of the Washington State Constitution. The Agency is charged with supervising all matters pertaining to public schools in the state. Its responsibilities include apportioning and distributing state education funding to 296 local school districts, providing technical assistance to educational service districts and school districts, and issuing certificates for teachers, administrators and support personnel. In addition, the Superintendent acts as an ex officio member and chief financial officer of the State Board of Education. The Agency manages an annual budget of \$4.8 billion with a staff of 295.

The Office of the Superintendent of Public Instruction states its mission as:

To help local school districts give children hope and skills for their future, and to lead and serve school districts so that all children can:

- Read, write and communicate;
- Know and apply math, science, history, civics, geography, arts, health and fitness;
- Think, make reasoned judgments and solve problems; and
- Understand the connection between learning and opportunities in life and work.

### **ELECTED OFFICIALS**

The Superintendent of Public Instruction is an election position serving a four-year term:

Superintendent

Dr. Terry Bergeson

### **ADDRESS**

Agency

Old Capital Building  
Olympia WA 98504-7200  
(360) 753-6738

# Audit Areas Examined

## Office of the Superintendent of Public Instruction July 1, 1998 through June 30, 1999

In keeping with general auditing practices, we do not examine every portion of the Superintendent of Public Instruction's financial activities during each audit. The areas examined were those representing the highest risk of noncompliance, misappropriation or misuse. Other areas are audited on a rotating basis over the course of several years. The following areas of the Agency were examined during this audit period:

### **LEGAL COMPLIANCE**

We audited the following areas for compliance with certain applicable state and local laws and regulations:

- Apportionment
- Personal service contracts
- Purchasing and disbursements
- Travel expenses
- Property and equipment
- Food distribution
- Billings and accounts receivable
- Personnel and payroll

### **INTERNAL CONTROL**

We evaluated the following areas of the Agency's internal control structure:

- Property and equipment
- Purchase and disbursements
- Grants management
- Cash receipting
- Billings and accounts receivable
- Budget/fiscal responsibilities/general ledger/journal entries
- Personnel and payroll

### **FINANCIAL AREAS**

Our opinion on the state's general purpose financial statements is provided in the Washington State Comprehensive Annual Financial Report issued by the Office of Financial Management. In connection with our audit of the state's financial statements, we examined the following accounts at the Agency:

- Apportionment
- Federal grants in aid
- Child/Adult Food Care Program

## **FEDERAL PROGRAMS**

We audited the Washington Education System under the terms of an approved single audit pilot project. The pilot project is an annual, statewide audit of federal programs administered by school districts, educational service districts and the Office of the Superintendent of Public Instructions (OSPI). In conducting our audit, we evaluated and tested the internal controls used by the Washington Education System to administer its federal programs and tested for compliance with federal laws and regulations.

The results of our pilot project will be published in a separate report, which includes any federal findings from all school districts, education service districts and OSPI. The following federal programs were reviewed at OSPI and/or the educational service districts and school districts:

- CFDA 84.010 – Title 1 Grants to Local Education Agencies
- CFDA 84.027 – Special Ed – State Grants
- CFDA 10.558 – Child Care Food Program
- CFDA 84.041 – Impact Aid, Maintenance and Operations
- CFDA 84.011 – Migrant Education – Basic State Grant Program
- CFDA 93.600 – Head Start
- CFDA 84.048 – Vocational Education – Basic Grants to States
- CFDA 84.276 – Goals 2000 – State and Local Education Systemic Improvement Grants
- CFDA 84.298 – Innovative Education Program Strategies
- CFDA 84.165 – Magnet Schools Assistance
- CFDA 84.318 – Technology Literacy Challenge funds
- CFDA 84.203 – Star Schools
- CFDA 84.288, 84.290, 84.291 – Bilingual Education Cluster
- CFDA 84.162 – Immigrant Education
- CFDA 84.196 – Education for Homeless Children and Youth
- CFDA 84.213 – Even Start – State Educational Agencies

# Audit Overview

## Office of the Superintendent of Public Instruction July 1, 1998 through June 30, 1999

### **AUDIT HISTORY**

We audit the Office of the Superintendent of Public Instruction annually. Previous audits have contained findings with recommendations to strengthen internal controls and improve accountability. The Agency has taken appropriate action to correct the deficiencies noted.

### **CONCLUSIONS**

In most areas the Agency complied with state laws and regulations, its own policies and procedures, and federal financial assistance requirements. We did identify two conditions significant enough to report as findings. These conditions are discussed in the findings section of this report. We also made recommendations to management on ways to improve internal controls in the areas of purchasing and disbursements, travel, food distribution-commodities, budgets, and state grants.

We found the Agency made progress in resolving issues identified in our past audit. Three findings regarding federal programs reported in the prior audit were resolved. The Agency also continues to improve controls over personal service contracts.

We thank Agency officials and personnel for their assistance and cooperation during the audit.

# Schedule of Audit Findings

## Office of the Superintendent of Public Instruction July 1, 1998 through June 30, 1999

- 1. The Office of the Superintendent of Public Instruction (OSPI) does not have adequate internal controls and procedures in place within the Accounting Department and in the specific areas of accounts receivable, journal vouchers and year-end adjustment vouchers.**

### Description of Condition

We reviewed and tested internal controls and procedures in the Agency's Accounting Department, accounts receivable, and journal voucher and year-end adjustment voucher processing.

Our audit procedures disclosed the following weaknesses:

#### Accounting Department

- OSPI is not consistently following Office of Financial Management (OFM) guidelines for accounting and reporting. Data that is entered into OSPI's Internal Accounting System (IAS) and into OFM's Accounting and Financial Reporting System (AFRS) is not consistent. Discrepancies between IAS and AFRS have not been adequately reconciled.
- Records and documentation to support transactions are often missing. Requests for supporting documentation may be delayed for weeks and, often, the information cannot be located.
- OSPI initiates expenditure transactions that are forwarded by computer tape to the Office of the State Treasurer, where a warrant is generated. The Treasurer's Office sends a tape of warrants processed to OFM for entry into AFRS. OSPI also sends a tape of the expenditures to OFM for entry into AFRS. If the transactions on the two tapes are not identical, an Unbalanced In-Process Reconciliation Report is generated that must be reconciled and cleared in order for AFRS to be correct.
- As of November 30, 1999, there are transactions from three biennium's that should be cleared. For example, there are \$5.8 million in warrants in process for the General Fund. Of the \$5.8 million, \$4,000 pertains to 1993-1995 biennium transactions and more than \$209,000 to 1995-1997 biennium transactions. We are unable to determine whether these in process transactions could have caused over-expenditures in some appropriations.
- OSPI did not comply with OFM deadlines for closing fiscal year 1999 accounting activity. During the audit of the Comprehensive Annual Financial Report (CAFR), it was noted that Agency Accounting posted 103 documents after the deadlines.



### Accounts Receivable

More than \$35 million in accounts receivable were on OSPI's books as of June 30, 1999. We noted:

- The accounts receivable balance is inaccurate. There are amounts that should be included and are not (for example, food distribution, grants management, child nutrition, and audit resolution). There are amounts that should not be included and are (for example, erroneously established receivables).
- OSPI does not use journal vouchers for all payments between accounts in the treasury as required by OFM. OSPI officials state the internal accounting system cannot accommodate a transfer of funds from suspense to the proper coding using journal vouchers. Therefore, OSPI issues warrants to itself to clear the suspense account. This method of clearing the suspense account establishes an erroneous accounts receivable account.
- The Agency does not promptly record receivables in accordance with OFM regulations.
- The Agency does not maintain accounts receivable subsidiary ledgers and balance them against the associated general ledger control accounts at least monthly. Without a subsidiary ledger it is difficult to maintain an accurate balance in the accounts receivable account.
- The Agency does not prepare aging reports. Agencies with more than \$50,000 in past due receivables are to prepare aging reports at least monthly.
- OSPI did not prepare an annual report (Disclosure Form E) on aging, past due, and write-offs of receivables and submit it to OFM. All agencies with accounts receivable balances of \$200,000 must submit that information to OFM.

### Journal Vouchers/Year-end Adjustments

We reviewed and tested the controls and processes used to initiate, prepare, approve and record journal voucher and year-end adjustments. We found:

- A lack of a clear audit trail supporting adjustments. We identified several series of transactions between journal voucher batches involving multiple errors and attempts to correct those errors. In each of these cases, supporting documentation was either unavailable or insufficient to determine the propriety of the transactions and the rationale behind subsequent accounting entries.
- The Agency was allowed an additional month to provide adequate documentation to support the adjustments. The Agency provided support for only a limited number of the transactions in question.
- Adjustment activity that was not in accordance with generally accepted accounting principles, or the propriety of which could not be determined due to the lack of supporting documentation.
- A lack of adequate supervisory review and approval of adjustment activity. Supervisors did not approve any of the journal voucher batches containing the transactions described above.

## **Cause of Condition**

Accounting Department personnel are not always aware of OFM guidelines for accounting and reporting or choose not to follow them.

OSPI believes the cause to be related to supervision, training and allocation of resources. The Agency's workload has caused a higher priority to be placed on other issues. Added problems appear to result from using several systems that do not fully interface with AFRS.

## **Effect of Condition**

Weak internal controls increase the potential for undetected accounting errors and the occurrence of fraud. The weaknesses we found were in Accounting Department procedures, and in the areas of accounts receivable and journal vouchers/accruals.

In the Accounting Department, if in-process accounts are not cleared and the Agency's data is not reconciled to financial data maintained by the state, it is difficult to rely on the financial data submitted for inclusion in the state's Comprehensive Annual Financial Report (CAFR).

By not posting adjustments in a timely manner, reliable financial data was not available for audit. This resulted in increased audit costs to the Agency and delays in publishing the CAFR for the fiscal year ended June 30, 1999.

In the case of accounts receivable, weak internal controls limit management's ability to determine whether the amounts owed the state are accurately recorded and collectable. The lack of an accurate subsidiary ledger also can result in lost revenue and hampers the proper reporting of receivable balances.

Concerning journal vouchers, accessibility to detailed information supporting general ledger adjustments is fundamental to good internal controls. A lack of supporting documentation and appropriate supervisory review and approval makes it impossible to determine whether adjustments are proper. Interested parties cannot be assured that the financial information provided is accurate.

## **Recommendations**

We recommend the Agency:

- Strengthen internal controls within its Accounting Department. Controls should ensure effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations.
- Ensure that assigned staff are adequately supervised and properly trained regarding Office of Financial Management (OFM) requirements for accounting and reporting. Work performed should be consistently reviewed and documented.
- Ensure adequate documentation is maintained to support transactions being processed.
- Reconcile and clear all transactions on the Unbalanced In-Process Reconciliation Report, and keep the report current.
- Reconcile its internal accounting system with AFRS.
- Establish procedures and controls to ensure compliance with OFM deadlines for closing fiscal year activity.

- Ensure an adequate system is in place to provide reliable accounting data for accounts receivable.
- Establish subsidiary accounts and balance them against the associated general ledger control accounts at least monthly.
- Promptly record receivables.
- Use journal vouchers for all payments between accounts in the treasury.
- Prepare aging reports.
- Prepare the proper disclosure form for receivables.
- Evaluate the adequacy of internal controls related to adjustments and take immediate action to strengthen those controls. This should include establishing appropriate levels of review and approval of all adjustment activity. Staff assigned the responsibility for performing adjusting transactions should be trained and adequately supervised. Documentation identifying the purpose of journal vouchers and year-end adjustments should be retained.

## **Agency's Response**

*OSPI concurs with the finding. OSPI has contracted with an independent accounting firm to conduct an extensive internal control review of the Agency's accounting processes in an effort to improve internal control issues, accounting processes, workflow, and duty alignment.*

### Accounting Department

*Because of the system differences between IAS and AFRS, information is not always entered in the same way in each system and sometimes not in IAS at all. Reconciliations are presently being brought current with variances explained and/or corrected. This includes the Unbalanced In-process Report. OSPI has been working diligently with OFM for more than 18 months to correct all unbalanced amounts and extensive progress has been made. In addition, many reconciliations have been reassigned to other accounting personnel in an effort to better align the workload. Review processes are being established so that reconciliations can be reviewed for accuracy as well as status.*

### Accounts Receivable

*Because of segregation of subsidiary accounting systems, OSPI has not included all receivables in its year-end accounts receivable ledger balances. OSPI is developing methodology for receivable information to be obtained from the subsidiary units to the central Agency accounting for inclusion in FY2000 forward.*

*OSPI does not have a central accounts receivable system. Such a system would require extensive programming for which OSPI does not have the resources. OSPI has an internal billing system allowing us to bill for both interagency and miscellaneous receivables. This system also allows us to track payment of receivables. Approximately 90% of the Agency's receivables are due from other agencies for reimbursable grants. We have created a new monthly accounts receivable report for all interagency receivables that will show current balances.*

*OSPI incorrectly cleared its suspense accounts through the use of warrants rather than JV's, using an incorrect transaction code that caused an erroneous balance in miscellaneous accounts receivable. Because of this erroneous, inflated balance, SAO determined that OSPI should have prepared aging reports and Disclosure form E for the CAFR. Had the error not been made,*

*account balances would not have exceeded the monetary thresholds that would have required OSPI to prepare those reports. Based on advice from OFM, OSPI did not prepare the reports since they would have been based on erroneous balances. Finally, OSPI now uses journal vouchers to clear its suspense account so that this error will not be repeated.*

#### Journal Vouchers/Year-end Adjustments

*Journal vouchers and adjustments did not, in all cases, have adequate documentation to support the transaction(s) being done. OSPI Agency Accounting has reviewed the process and all JV's and adjustments are now being thoroughly monitored for accuracy and complete documentation before being approved. OSPI Agency Accounting is also ensuring, through staff communication, that the appropriate supervisor is approving all documents.*

### **Auditor's Remarks**

We appreciate the Agency's timely response and commitment to resolution of these issues and thank Agency staff members for their cooperation and assistance during our audit. We will follow up on these matters in our next audit.

### **Applicable Laws and Regulations**

The *State Administrative and Accounting Manual* (SAAM) 20.20.10 identifies the purpose of internal control:

A management control system, including comprehensive internal controls, should provide reasonable assurance that entity objectives are being met. Entity objectives fall into the following three separate but related categories:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting,
- Compliance with applicable laws and regulations.

Control objectives focus the management control system toward those control activities designed to minimize the risks of not achieving entity objectives. Safeguarding of assets is an example of a control objective, when in place and effective, aids in the achievement of all three entity objective categories.

SAAM 20.20.20 further defines the agency's responsibility with regard to internal controls:

Each agency director is responsible for establishing and maintaining an effective system of internal control throughout the agency. An internal control system should provide reasonable assurance that an organization will accomplish its objectives.

Section 80.30.92 states in part:

Agency fiscal activities are to be organized in such a manner as to provide the maximum degree of internal control in the most efficient and effective manner. Specific organization arrangements are left to the discretion of the agency; due to the diverse nature of state agency operations, examples will not be illustrated in this manual. However, in establishing the organizational structure of the agency, the internal control requirements prescribed in Chapter 20 of this manual are to be assured.

Section 90.10.70 states:

Agencies are to adhere to the published due dates. This adherence allows the data to be consolidated by OFM and reported in accordance with statutory time frames.

Section 90.20.05 states:

The closing process is established in "phases." Each phase is open for a limited time, and requires completion of certain events in preparation for the next phase.

Phase 1 allows agencies time to record revenue and expenditure/expense accruals.

Phase 2 gives agencies time to record adjustments necessary to correct year end totals.

Phase 3 allows the SAO time to audit accounting data and recommend any necessary adjustments.

Phase 4 is when the Office of Financial Management prepares the CAFR.

The Office of Financial Management (OFM) *State Administrative and Accounting Manual*, Section 85.54.10.b states that:

Agencies are to promptly record receivables when the asset or revenue recognition criteria have been met or the underlying accounting event has occurred and the amount is determinable.

Section 85.54.65.a states:

Agencies are to establish and maintain a detailed subsidiary ledger on an open item basis (i.e., an entry in the subsidiary ledger for each outstanding amount due).

Section 85.54.65.b states:

Subsidiary ledgers are to be balanced against the associated general ledger control accounts at least monthly.

Section 85.36.20 states:

Journal vouchers (JV payments) are to be used for all payments between accounts in the treasury.

Section 85.54.50.a states:

Agencies with more than \$50,000 in past due receivables are to prepare aging reports at least monthly. Aging reports are required to be reviewed by management and such review documented on the report.

Section 90.40.55.a states:

All agencies with accounts receivable balances of \$200,000 or more in GL Code Series 13XX and 16XX exclusive of governmental receivables in GL Code Series 1351 through 1355 and GL Code Series 1651 through 1656, are to prepare Form E "Annual Receivables Aging Summary Report."

# Schedule of Audit Findings

## Office of the Superintendent of Public Instruction July 1, 1998 through June 30, 1999

### 2. The Office of the Superintendent of Public Instruction did not comply with state laws and regulations requiring control over fixed assets.

#### Description of Condition

We reviewed and tested controls over fixed assets at the Office of the Superintendent of Public Instruction. Our audit procedures disclosed the following internal control weaknesses:

- Written instructions provided to employees performing the physical inventory count of both capitalized and small and attractive assets (under \$5,000 but particularly vulnerable to theft) were not complete per state Office of Financial Management (OFM) requirements.
- The inventory count of capitalized and small and attractive assets was performed using electronic scanning devices. Exception reports were prepared identifying discrepancies, but a report of all inventoried assets was not done. Consequently, those participating in the inventory process did not sign inventory documents attesting to the accuracy of the inventory count. The agency has considered requesting a waiver of this requirement from OFM.
- The physical inventory count was not reconciled to inventory records. Therefore, not all discrepancies noted during the count have been corrected. The exception report identifying assets recorded in the system, but not found during the count has been misplaced and no action was taken regarding those discrepancies.
- Not all assets received during fiscal year 1999 have been entered into the capitalized or small and attractive asset system. Initially, we identified 282 tag numbers that had been assigned to assets during fiscal year 1999 that had not been recorded in the capitalized or small and attractive system. As of December 30, 1999, 29 of those assets still had not been entered into the fixed asset systems.
- The Agency did not comply with OFM procedures for those assets determined to be lost or stolen during the fiscal year.

#### Cause of Condition

The Agency's workload and the assignment of higher priority to other issues are the cause of this condition.

#### Effect of Condition

When complete and accurate fixed asset records are not maintained and established control procedures are not followed, the Agency cannot ensure proper safeguarding, reporting and accountability of state property and equipment.

## Recommendations

We recommend that the Agency comply with OFM regulations regarding fixed assets. Controls should be reviewed and monitoring procedures established to ensure compliance. Controls should ensure that:

- Written instructions for a physical inventory are completed per OFM requirements and followed.
- All assets are recorded in the appropriate fixed asset inventory system.
- Physical inventories are properly performed and documented and that reconciliations are completed.
- Procedures for reporting and recording the loss or theft of assets are established and followed.

## Agency's Response

*OSPI concurs with this finding and is continually working to improve its control over fixed assets. Toward this effort, a new physical inventory will be taken in August 2000 using our new asset tracking system and bar code tag reader. Complete written instructions will be developed for the inventory taker(s) in accordance with OFM requirements. Since the use of electronic scanning devices does not allow for reports which the inventory takers can sign, we are requesting a waiver of this requirement from OFM. Electronic scanning of tag numbers is a much more efficient method of inventory taking. It will allow us to match inventory information against the current inventory data base, resulting in variance reports that tell us if inventory is found but not entered into the database, and also if inventory is listed in the database but not found in the physical inventory process. Reconciliation of the physical inventory will take place in the month of September with completion anticipated by October 15, 2000.*

*In addition, certain inventory duties have been reassigned to our administrative support person, such as entering new assets into the system, posting changes, etc. This will enable us to keep posting on a current basis. To date, all posting is current and will be as of the Statewide Asset Reporting System posting deadline of August 15, 2000.*

## Auditor's Remarks

We appreciate the Agency's timely response and commitment to resolution of these issues and thank Agency staff members for their cooperation and assistance during our audit. We will follow up on these matters in our next audit.

## Applicable Laws and Regulations

The *State Administrative and Accounting Manual*, Section 30.40.40 defines the responsibility for adding fixed assets to the inventory:

Upon receipt and acceptance of an inventoriable fixed asset, the Agency inventory officer is responsible for supervising the addition of the asset to the inventory system. This includes assigning tagging responsibilities to specific individuals as well as developing and implementing procedures to ensure that the necessary information is entered into the fixed asset inventory records.

Section 30.40.65 describes the requirements of written physical inventory instructions provided to those performing the physical inventory count:

Written physical inventory instructions must be documented and distributed to each person participating in the inventory process. The instructions should include:

- What to do when they have a question.
- What procedures to follow when they finish their assignments.
- What procedures to follow when equipment is located but not listed.
- The procedure indicating that the person counting the assets is to attest to the accuracy of the count by signing his or her name at the bottom of each inventory page, and
- How to record assets not being used or in an obviously unserviceable condition. Such information is to be used to schedule repair or disposition of such assets.

Section 30.40.70 discusses the physical inventory reconciliation process:

After the physical inventory count is completed, the agency inventory officer is to conduct the reconciliation process. Reconciliation is defined as the process of identifying, explaining, and correcting the differences occurring between the physical count and the inventory records. When all differences have been identified, and explained, the inventory is considered reconciled.

Section 30.40.80 identifies procedures for lost or stolen property:

When suspected or known losses of fixed assets occur, agencies should conduct a search for the missing property. The search should include transfers to other divisions or agencies, storage, scrapping, conversion to another asset, etc. If the missing property is not found:

- Follow the loss procedures in Section 20.30.
- Have the individual deemed to be primarily responsible for the asset, as well as that individual's supervisor, complete and sign a Property Disposal Request (Form S.F. 267-A or equivalent). Include on the Request a description of events surrounding the disappearance of the property, who was notified of the loss, and steps taken to locate the property.
- Remove the lost or stolen property from the agency's inventory and accounting records where applicable.
- Maintain records of fixed asset losses in accordance with approved agency records retention schedules.

Section 20.30.20 further defines required procedures upon suspicion of a loss:

Each agency should follow the appropriate procedures outlined in this section. Additionally, each agency should establish formal notification procedures to notify appropriate agency personnel when someone suspects a loss of public funds or property.



Appropriate personnel not involved in the suspected loss should be notified prior to contacting the outside agencies . . .

The agency's Assistant Attorney General (AAG) should be consulted on incidents involving the loss of public funds or property, when the nature or facts of the incident warrant such discussion for the purpose of acquiring legal advice. It is best to establish, in advance and in writing, with the agency's assigned AAG appropriate general procedures to follow upon learning of a loss of public funds or property.

Report the suspected loss to SAO . . .

Report the suspected loss to the Division of Risk Management, Department of General Administration.

. . . contact the appropriate local or state law enforcement officials.

Protect any pertinent records from destruction.

# Status of Prior Audit Findings

## Office of the Superintendent of Public Instruction July 1, 1998 through June 30, 1999

The status of findings contained in prior audit reports of the Office of the Superintendent of Public Instruction is provided below:

Findings this audit: 2  
Findings last audit: 4  
Number of repeat findings: 0

- 1. The Office of the Superintendent of Public Instruction (OSPI) did not comply with personal service contract requirements.**

### Background

For one personal services contract for \$50,000 to a nonprofit organization, OSPI did not solicit competitive proposals. \$17,739 of the contract amount was charged to federal programs and was questioned costs.

### Status

The Agency has completed corrective action to address the deficiencies noted. The Agency is continuing to improve controls over personal service contracts. OSPI did not agree with the questioned costs and a resolution with the federal Agency has not been forthcoming at this time.

- 2. The Office of the Superintendent of Public instruction used Innovative Education Program Strategies federal funds to fund services that were required under state law.**

### Background

OSPI used federal funds to fund the state Board of Education accreditation process. The accreditation process is an activity required by state law and, therefore, may not be funded with federal dollars.

### Status

Corrective action has been completed. Complete reimbursement of \$22,060 in questioned costs was made to the U.S. Department of Education on June 25, 1999.

- 3. The Office of the Superintendent of Public Instruction did not have controls in place to ensure the allowability of all expenditures charged to the Innovative Education Program Strategies federal program.**

### Background

A test of 25 transactions found that seven expenditures were not approved by a person knowledgeable of which costs could be charged to the program. Four of the expenditures totaling \$829 were not allowable charges.

## **Status**

Corrective action has been completed. OSPI has established new internal controls that make one knowledgeable individual responsible for reviewing and approving all expenditures in the program.

- 4. The Office of the Superintendent of Public Instruction should establish procedures to ensure all subrecipients of Title 1 grants to local educational agencies are monitored for compliance with federal requirements.**

## **Background**

Numerous subrecipients receive federal pass-through funds from OSPI for operations supported by the Title 1 grants to Local Educational Agencies (Title 1) program. To help ensure that funds are spent appropriately by subrecipients, the federal government requires that OSPI monitor the subrecipient's activities to provide reasonable assurance that the subrecipients administer federal awards in compliance with federal requirements.

Monitoring activities may take various forms, such as reviewing reports submitted by the subrecipient, performing site visits to the subrecipient to review financial and programmatic records and observe operations, and evaluating audit findings and the subrecipient's corrective action plan. On-site monitoring is one of the primary methods available to provide reasonable assurance that subrecipients are in compliance with federal regulations.

## **Status**

Corrective action has been completed. OSPI has established a monitoring schedule to assure that all districts are monitored on a regular schedule.

Those districts that had not been monitored for five years were scheduled for monitoring in the spring of 1999. In the future, districts will be scheduled on a three or four-year cycle with priority determined by a set of standardized risk factors.

In the spring of 1999, OSPI launched its program of Consolidated Program Reviews (CPR) with a pilot project encompassing eight districts. As of the fall of 1999, all Title 1 monitoring is being accomplished as part of a formal CPR process using standardized monitoring instruments.